Auckland Airport

Interim Report 2008

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Our vision is to represent our country as New Zealand's Airport. **In delivering our vision, we are committed to being outstanding, uniquely Kiwi and welcoming.** Significant progress was achieved in all six of the company's core strategies to become New Zealand's Airport during the first half of the 2008 financial year.

The silver fern is New Zealand's most recognised icon and, as befits New Zealand's airport, it forms a central part of our identity. The rich green leaves – which illustrate our recent growth and opportunities – are lined with silver, representing outstanding Kiwi achievement and pride.

Chairman and CEO's report

Don Huse, *chief executive officer and* Tony Frankham, *chairman.*

INTRODUCTION

Our vision is to represent our country as New Zealand's Airport. In delivering our vision, we are committed to being outstanding, uniquely Kiwi and welcoming.

Significant progress was achieved in all six of the company's core strategies to become New Zealand's Airport during the first half of the 2008 financial year. These core strategies are: grow New Zealand tourism and business; provide a unique and compelling New Zealand airport experience; deliver outstanding customer service; operate in a safe, secure, sustainable and efficient manner; enhance our people capability and performance; and create long-term value for our owners.

"Significant progress was made in all six of the company's core strategies..."

SUMMARY OF INTERIM FINANCIAL RESULTS

The company's financial statements for the six months ended 31 December 2007, and the comparative periods, are the first to have been prepared in accordance with accounting policies consistent with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The notes to the financial statements include reconciliations and explanations for the differences between previously reported statements under New Zealand Financial Reporting Standards (NZ FRS) and NZ IFRS.

Another solid trading result was achieved, with revenue up 7.9 per cent to $172.325 million. This result was driven by increased passenger growth, improved service offerings, completed developments and aeronautical and commercial pricing adjustments.

Operating earnings before interest, tax and depreciation (Operating EBITDA) increased 7.3 per cent to $135.396 million. The company has incurred $5.829 million of costs relating to the various ownership proposals over the last 12 months. These costs were expensed in the first half of this year, reducing total EBITDA (after deducting costs relating to ownership proposals) to $129.567 million.

Depreciation totalled $22.361 million ($21.122 million in previous year) for the first half of the year. Interest costs were $34.277 million ($30.703 million). The tax expense was $25.339 million ($24.773 million). (Note: Under NZ IFRS the tax expense in the income statement does not reflect an effective tax rate.)

Surplus after tax was $47.590 million compared with $49.531 million for the same period last year. Earnings per share were 3.90 cents (4.06 cents).

Excluding the one-off costs relating to the ownership proposals and a reduction in the provision for the long-term incentive (LTI) plans for management, profit after taxation on a normalised basis was $52.072 million, an increase of 5.1 per cent over the same period last year. This was pleasing, given the additional depreciation and interest costs associated with the company's strategic Masterplan investment programme.

The financial results have been reviewed, but not audited, by the company's auditors, Deloitte.

Performance highlights

Passenger volume for the six months to 31 December 2007:

6,449,543

up 4.9% on the same period last year

Operating earnings before interest, tax and depreciation:

$135.396 million

up 7.3%

Revenue for the six months to 31 December 2007:

$172.325 million

up 7.9%

Profit after tax:

$47.590 million

Earnings per share: 3.90 cents (4.06 cents)

Passenger volumes

Total passenger volumes rose 4.9 per cent to 6,449,543. Total aircraft movements, on the other hand, were down 0.3 per cent, reflecting higher load factors and the trend towards larger aircraft, particularly on domestic routes.

International passenger numbers (excluding transit and transfer passengers) were up 3.2 per cent. New Zealand travellers remain the largest single category, but it is most encouraging to see numbers from potentially significant markets such as India and China continuing to grow strongly.

Domestic passenger numbers rose 8.7 per cent to 2,759,261 driven in particular by the start of Pacific Blue services in the domestic market. Further growth in this market can be expected following the announcement by Air New Zealand of reduced airfares on many of its domestic routes and enhanced services by Qantas.

For the month of January 2008, numbers of international passengers (excluding transits and transfers) were 1.6 per cent above those of January 2007. International passenger numbers (including transits and transfers) increased by 1.7 per cent. Domestic passenger numbers increased 15.4 per cent.

International arrivals at Auckland Airport (by country of last permanent residence)

Six months ended 31 December	2007	2006	% change	% of total
New Zealand	799,679	739,663	+8.1	48.0
Australia	274,222	263,830	+3.9	16.5
United Kingdom (incl. Ireland)	111,441	118,745	–6.2	6.7
United States of America	79,457	86,456	–8.1	4.8
China	58,348	53,724	+8.6	3.5
Japan	39,308	45,032	–12.7	2.4
Korea, Republic of	35,251	43,519	–19.0	2.1
Germany	23,630	22,597	+4.6	1.4
Canada	19,028	18,203	+4.5	1.1
Netherlands	10,874	12,287	–11.5	0.7
India	10,257	9,038	+13.5	0.6
Other	203,011	201,388	+3.2	12.2
Total	**1,664,506**	**1,614,482**	**+3.1**	**100.0**

Source: Statistics New Zealand

Revenue

Aeronautical revenue increased 3.3 per cent to $79.071 million, representing 45.9 per cent (47.9 per cent) of the company's total revenue.

Non-aeronautical revenue increased 12.1 per cent to $93.254 million, driven by a strong performance from the company's retail operations, combined with increases in carparking and rental income.

Retail income rose 10.4 per cent to $51.021 million. This was driven in particular by new concessions tendered for duty-free merchandise, car rentals and foreign exchange, combined with further improvements in the performance of the HMSC-AIAL joint venture food and beverage operation.

Revenue streams

Six months ended 31 December	2007 $m	2006 $m	% change
Aeronautical revenue			
Airfield	34.439	34.094	+1.0
Passenger services charge	32.823	31.179	+5.3
Terminal services charge	11.809	11.254	+4.9
	79.071	76.527	+3.3
Non-aeronautical revenue			
Retail	51.021	46.203	+10.4
Property rentals	18.440	15.936	+15.7
Car parks	14.953	12.941	+15.5
Interest	0.030	0.589	–94.9
Utilities and general	8.258	7.032	+17.4
Associated companies	0.552	0.451	+22.4
	93.254	83.152	+12.1
Total revenue	172.325	159.679	+7.9

Operating expenses

Operating expenses for the half year increased 10.1 per cent to $36.929 million ($33.550 million).

Staff costs increased due to the appointment of a number of new positions reflecting the expansion of the company's business and major projects, along with ongoing wage and salary increases in the current tight labour market.

This was offset by a reduction of $1.925 million in the provision for LTI plans, given the reduction in the share price since 30 June 2007. Property rates increased as a result of higher local and regional government rates, water and waste-water charges during the period. The increase in other costs primarily resulted from increased legal and consultancy costs.

Operating expenses

Six months ended 31 December	2007 $m	2006 $m	% change
Staff costs	12.883	13.248	–2.8
Repairs and maintenance	12.554	10.297	+21.9
Rates and insurance	3.772	3.166	+19.1
Other	7.720	6.839	+12.9
Total operating expenses	36.929	33.550	+10.1

Results at a glance

Six months ended 31 December	2007 $m	2006 $m[1]	% movement
Financial performance			
Revenue	172.325	159.679	7.9
Operating earnings before interest, taxation and depreciation (Operating EBITDA)[2]	135.396	126.129	7.3
Costs relating to ownership proposals	5.829	0.000	100.0
Depreciation	22.361	21.122	5.9
Interest expense	34.277	30.703	11.6
Profit before taxation	72.929	74.304	–1.9
Taxation	25.339	24.773	2.3
Profit after taxation	47.590	49.531	–3.9
Earnings per share	3.90 c	4.06 c	–3.9
Interim dividends:			
– cents per share[3]	5.75	3.75	53.3
– amount	70.270	45.774	53.5
Financial position			
Shareholders' equity	1,910.060	1,758.813	8.6
Total assets	3,039.195	2,794.039	8.8
Equity ratio	62.8%	62.9%	–0.2
Debt to enterprise value[4]	21.4%	24.8%	–13.5
Capital expenditure	74.837	51.828	44.4
Operational performance			
Passenger movements (including transits)	6,499,543	6,198,017	4.9
Aircraft movements	78,829	79,102	–0.3
Aircraft tonnage	2,928,111	2,949,949	–0.7

1 2006 comparatives have been restated to be compliant with NZ IFRS.

2 Operating EBITDA includes a reduction of $1.925 million in the provision for long-term incentive plans for management, given the reduction in the share price since 30 June 2007.

3 Interim dividend increased by 2.00 cents per share compared with last year in order to utilise surplus imputation credits that may be lost due to a possible change in ownership. Final dividend expected to be reduced by 2.00 cents per share.

4 Based on the share price as at 31 December 2007 of $2.91.

Chairman and CEO's report continued

OPERATING EBITDA

With the transition to NZ IFRS, the company has adopted a new line in the income statement referring to Operating EBITDA. This refers to the operating earnings of the group prior to interest, tax and depreciation and also prior to changes in the fair value of investment properties. The Operating EBITDA result will provide clarity as to the operating performance of the group on a normalised basis and is similar to the group's normalised operating cash flow.

Operating EBITDA was $135.396 million, an increase of 7.3 per cent over the same period last year.

TOTAL EBITDA

Under NZ IFRS, changes in the valuation of the company's investment properties are recognised directly in the income statement. These changes were previously recorded under NZ FRS in equity directly to investment property revaluation reserve.

The company values its investment properties annually at year-end. Accordingly, there are no changes in valuation of the company's investment properties included in the interim results for the six months to 31 December 2007.

As at 31 December 2007, the company had expensed $5.829 million in connection with its response to the various ownership proposals discussed below. This amount includes the fees and expenses of the company's legal, financial, public relations and other advisers, along with other out-of-pocket costs, incurred over the last 12 months in connection with all of the ownership proposals relating to the company, including the DAE and CPPIB amalgamation proposals. Further one-off costs in the order of $7.000 million are expected to be incurred in relation to the ownership proposals in the second half of the year. These further amounts have not been included in the costs relating to ownership proposals for the six months to 31 December 2007 which have been disclosed separately.

The company's involvement in responses to the ownership proposals has also had an indirect impact on operating expenses during the first half, with additional resourcing and consultancy requirements necessary to cover management involved in the ownership proposals.

FINANCIAL POSITION

Auckland Airport's financial position remains strong, with an investment grade credit rating from Standard & Poor's of A negative outlook. The negative outlook relates to the uncertainty regarding the status of the company's ownership.

Total assets at 31 December 2007 increased $56.512 million to $3,039.195 million, compared with $2,982.683 million at 30 June 2007. Shareholders' equity increased $4.905 million to $1,910.060 million ($1,914.965 million at 30 June 2007).

Capital expenditure was $74.837 million and is expected to be in the order of $150.000 million for the full 2008 year.

Total borrowings at 31 December 2007 increased $66.295 million to $970.827 million ($904.532 million at 30 June 2007), in line with financing of the current capital expenditure programme. Borrowings comprised bonds of $367.828 million, commercial paper of $158.599 million, bank facility borrowings of $470.000 million and money market borrowings of $24.400 million.

Gearing measured as debt-to-debt plus shareholders' equity was 33.7 per cent (32.1 per cent at 30 June 2007). Based on the market value of the company's equity at 31 December 2007, the gearing was 21.4 per cent of enterprise value (18.4 per cent at 30 June 2007). At 31 December 2007, the company had $130.000 million of committed but undrawn available funding lines.

DIVIDENDS

The directors have announced a fully imputed dividend of 5.75 cents per share, compared with last year's interim dividend of 3.75 cents per share. As a prudent measure, the directors have increased the interim dividend by 2.00 cents per share in order to utilise the surplus imputation credits that would be lost if the current takeover offer from Canada Pension Plan Investment Board (CPPIB) were successful. It is expected that the final dividend will be reduced by an amount of 2.00 cents per share, reflecting the increased interim dividend paid to shareholders now.

The interim dividend has a record date of 7 March 2008 and will be paid out to shareholders on 12 March 2008, the day before the CPPIB offer closes.

The terms of the partial takeover offer from CPPIB provide that no dividend shall be declared or paid during the offer period, which is a standard term of a takeover. The offer terms also provide that CPPIB may waive this condition with the result that the offer price per share shall reduce by the amount of the dividend. CPPIB has consented to the payment of this interim dividend and the adjustment to the offer price.

Accordingly, the impact of this is that the offer price under the CPPIB offer will be reduced by the amount of the interim dividend from $3.6555 per share to $3.5980 per share.

GOVERNANCE

At the annual meeting on 20 November 2007, shareholders elected three new directors to the board of Auckland Airport. These were John Brabazon, Richard Didsbury and Lloyd Morrison. At the same meeting Mike Smith retired by rotation from the board after nine years' service.

Shortly after the annual meeting John Maasland retired as chairman. Tony Frankham was elected by the directors as the new chairman. Keith Turner was elected deputy chairman. The board acknowledges with gratitude the service to the company by John Maasland and Mike Smith, particularly over the last 12 months in responding to the ownership proposals before the company.

Our chief executive officer, Don Huse, announced his intention to retire by the next annual meeting after more than five years' service. Don is an excellent leader and significant progress has been made under his management. A global search is being undertaken to recruit a suitable replacement for him.

OWNERSHIP OF AUCKLAND AIRPORT

Over the course of the 2007 calendar year, the company received a number of different ownership proposals. In reviewing and responding to these proposals, the directors have at all times focused on the best interest of shareholders. The board has sought to ensure that the best outcome is achieved for the long-term benefit of the company.

As noted above, on 14 December 2007, CPPIB launched its partial takeover offer for 39.2 per cent of the company. If CPPIB is successful, it has indicated that it will use all reasonable endeavours to progress its proposal to restructure the company through an amalgamation process. The board of Auckland Airport had previously determined (by majority) not to pursue a similar amalgamation proposal from CPPIB.

Auckland Airport has mailed its Target Company Statement, dated 17 December 2007, to shareholders. This includes the directors' assessment of the CPPIB partial takeover offer and an independent adviser's report on the offer.

HMSC-AIAL LIMITED

Auckland Airport's profit from the 50.0 per cent joint venture HMSC-AIAL Limited was $0.552 million, up 22.4 per cent. HMSC-AIAL Limited operates food and beverage facilities at the international terminal.

World's friendliest staff

Auckland Airport was rated the best in the world for friendliness of staff during the period by London-based specialist air transport researchers, Skytrax Research.

The 2007 World Airport Awards survey was based on feedback from 7.8 million passengers, covering 170 airports. This excellent rating is testament to the total Airport team – including retailers, border agencies, our own Airport staff, service providers and airlines. It reflects the company's values of being outstanding and welcoming.

Outlook

NEW ZEALAND'S AIRPORT HAS AN EXCITING FUTURE

International passenger numbers are projected to increase over the longer term reflecting New Zealand's growing popularity as one of the world's leading tourism destinations. The company is ideally placed to benefit from the expected significant growth in traffic, particularly in the Asia-Pacific region, over the medium term. At home, competitive airfares and a strong Kiwi dollar can be expected to further encourage New Zealanders to travel domestically and internationally. We can expect a commensurate increase in retail, carparking and commercial services at the Airport.

In the short term, however, the impact of the global macro-economic environment combined with a slowing in the domestic economy, reduce the expected level of passenger growth for the remainder of this year. Although there is strong growth in domestic passenger numbers, there are signs of a levelling off in international passenger growth, with a higher value for New Zealand currency and higher oil prices being important factors. The current global credit tightening is expected to further increase the company's funding costs over time.

At this stage, the company remains on track to deliver revenue growth for the full year in the order of 7.0 per cent and Operating EBITDA (excluding investment property revaluations and ownership costs) growth in the order of 6.0 per cent, although there are downside risks. As always, this view is subject to any material adverse events, significant one-off expenses, deterioration due to the current global market conditions or other unforeseeable circumstances.

The long-term outlook for the company remains positive. The board and management are committed to the sustainable development of New Zealand's Airport and the creation of value for all of its stakeholders.

Tony Frankham
Chairman
21 February 2008

Don Huse
Chief Executive Officer
21 February 2008

Business developments

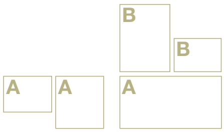
Significant progress was achieved on the company's investment programme to provide a unique and compelling New Zealand airport experience, and to deliver outstanding customer service, as well as ensure the safe, secure and efficient operation of the airport.

A Domestic terminal makeover

The "extreme makeover" of the domestic terminal in association with Air New Zealand was virtually completed during the period. In addition, five new counters were provided for Pacific Blue, which commenced domestic services in November 2007. The Qantas check-in area was upgraded also.

B International terminal expanded arrivals stage one

Good progress was made on stage one of the expanded arrivals project at the international terminal. This will be completed by mid-2008. It will feature strong Kiwi images and décor for arriving passengers, as well as spectacular elevated views across the Manukau Harbour. It will include a $1600m^2$ arrivals duty-free store, expanded border processing areas and an enhanced arrival experience.



International terminal expanded arrivals stage two

The company is planning the next stage of the international terminal expanded arrivals area. This project will bring the baggage hall, arrivals processing, and meeter and greeter areas up to the first floor. It will ensure facilitation standards compare well with our international peer airports and provide capacity for projected volume growth. A wider range of shops and services will be provided, along with better carparking, and forecourt and traffic management with enhanced personal safety outcomes.

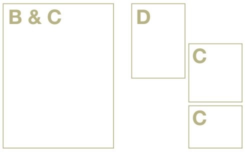
Business developments continued

C New international terminal pier

Work continued on Pier B at the international terminal. Completion is scheduled for September 2008. Pier B will connect to the new expanded arrivals area. It will provide two contact gates, each with two airbridges for two-door handling of a single large aircraft.

D Northern runway

Work has begun on stage one, which will be 1,200 metres long and operational in 2011. A whakawaatea (blessing) ceremony was held in early October 2007. It was attended by the Minister of Transport, Hon. Annette King, Sir Barry Curtis, the then Mayor of Manukau City, Mike Lee, Chairman of the Auckland Regional Council, as well as representatives from a wide range of the Airport's stakeholders. The northern runway will create a vibrant hub for domestic airlines, free up capacity for larger aircraft on the main runway and provide for projected passenger and freight growth.



Business developments continued

E North east retail and parking development

Work has begun on the expansion of the north east airport shopping centre and additional airport car parking.

F Road realignment

Work is underway to realign Ray Emery Drive at the international terminal as part of the company's Masterplan to enhance traffic flow and to accommodate future terminal developments.

Terminal hotel development

Expressions of interest were sought and received for a proposed four to five star, 250-roomed hotel adjacent to the international terminal as part of the company's Masterplan: 2025 and Beyond. The architecture and interior design are expected to showcase the rich landscape and multicultural nature of New Zealand, Auckland and Manukau City.

More information on these projects is available in the 2007 Annual Report and on the website.

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Financial statements

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Income statement

	Notes	Group 6 months 31 Dec 2007 $000	Group 6 months 31 Dec 2006 $000	Group 12 months 30 June 2007 $000
Operating revenue				
Airfield income		34,439	34,094	66,266
Passenger services charge		32,823	31,179	64,389
Terminal services charge		11,809	11,254	21,888
Retail income		51,021	46,203	93,744
Rental income		18,440	15,936	33,267
Rates recoveries		1,801	1,377	2,736
Carpark income		14,953	12,941	25,878
Interest income		30	589	1,076
Share of profit of an associate		552	451	904
Other revenue		6,457	5,655	11,798
Total operating revenue		**172,325**	**159,679**	**321,946**
Operating expenses				
Staff		12,883	13,248	36,045
Repairs and maintenance		12,554	10,297	22,987
Rates and insurance		3,772	3,166	6,271
Other		7,720	6,839	13,927
Total operating expenses		**36,929**	**33,550**	**79,230**
Operating earnings before interest, taxation and depreciation (Operating EBITDA)		**135,396**	**126,129**	**242,716**
Investment property fair value increases		-	-	140,160
Costs relating to ownership proposals		5,829	-	-
Total earnings before interest, taxation and depreciation (Total EBITDA)		**129,567**	**126,129**	**382,876**
Depreciation		22,361	21,122	43,184
Earnings before interest and taxation (EBIT)		**107,206**	**105,007**	**339,692**
Interest expense and other finance costs		34,277	30,703	62,739
Profit before taxation		**72,929**	**74,304**	**276,953**
Taxation expense		25,339	24,773	46,089
Profit after taxation		**47,590**	**49,531**	**230,864**

Earnings per share for profit attributable to the ordinary equity holders of the company	Cents	Cents	Cents
Basic and diluted earnings per share	3.90	4.06	18.91

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1. The accompanying notes form part of these financial statements.

Statement of changes in equity

	Notes	Group 6 months 31 Dec 2007 $000	Group 6 months 31 Dec 2006 $000	Group 12 months 30 June 2007 $000
Movement in cash flow hedge reserve:				
Gain/(loss) taken to equity		875	3,092	10,457
Transferred to income statement		(132)	(212)	(331)
Movement in deferred tax taken directly to equity		-	-	11,496
Net income recognised directly in equity		743	2,880	21,622
Profit after taxation		47,590	49,531	230,864
Total recognised income and expense for the period		48,333	52,411	252,486
Increase in issued and paid-up capital	6	1,106	460	2,266
Ordinary dividends paid	4	(54,359)	(54,313)	(100,087)
Movement in share-based payment reserve		15	47	92
Changes in equity for the period		(4,905)	(1,395)	154,757
Equity at beginning of period		1,914,965	1,760,208	1,760,208
Equity at end of period		1,910,060	1,758,813	1,914,965

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1. The accompanying notes form part of these financial statements.

Balance sheet

	Notes	Group as at 31 Dec 2007 $000	Group as at 31 Dec 2006 $000	Group as at 30 June 2007 $000
Non-current assets				
Property, plant and equipment	5	2,477,956	2,399,871	2,428,002
Investment properties	5	512,389	367,065	509,900
Investment in associate		4,444	3,439	3,892
Derivative financial instruments		13,481	4,890	12,507
Other non-current assets		775	775	775
		3,009,045	2,776,040	2,955,076
Current assets				
Bank		103	396	1,594
Inventories		137	133	134
Prepayments		3,667	989	2,890
Accounts receivable		19,536	13,243	12,140
Taxation receivable		6,707	2,211	10,180
Derivative financial instruments		-	1,027	669
		30,150	17,999	27,607
Total assets		**3,039,195**	**2,794,039**	**2,982,683**
Shareholders' equity				
Issued and paid-up capital	6	170,163	167,251	169,057
Cancelled share reserve		(161,304)	(161,304)	(161,304)
Retained earnings		255,535	127,343	262,325
Property, plant and equipment revaluation reserve		1,631,912	1,619,819	1,631,891
Share-based payments reserve		879	819	864
Cash flow hedge reserve		12,875	4,885	12,132
		1,910,060	1,758,813	1,914,965
Non-current liabilities				
Term borrowings	7	503,787	485,341	587,490
Derivative financial instruments		4,440	3,150	6,151
Deferred tax liability		98,352	107,183	95,361
Other term liabilities		431	446	440
		607,010	596,120	689,442
Current liabilities				
Accounts payable and accruals		50,027	38,712	58,172
Derivative financial instruments		1,596	-	-
Short-term borrowings	7	467,040	396,343	317,042
Provisions		3,462	4,051	3,062
		522,125	439,106	378,276
Total equity and liabilities		**3,039,195**	**2,794,039**	**2,982,683**

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1. The accompanying notes form part of these financial statements.

Cash flow statement

	Notes	Group 6 months 31 Dec 2007 $000	Group 6 months 31 Dec 2006 $000	Group 12 months 30 June 2007 $000
Cash flow from operating activities				
Cash was provided from:				
Receipts from customers		165,525	157,906	320,434
Interest received		30	589	1,076
		165,555	158,495	321,510
Cash was applied to:				
Payments to suppliers and employees		(54,317)	(34,185)	(66,987)
Income tax paid		(18,875)	(14,629)	(44,243)
Other taxes paid		(123)	(140)	(318)
Interest paid		(30,308)	(31,009)	(62,789)
		(103,623)	(79,963)	(174,337)
Net cash flow from operating activities	3	**61,932**	**78,532**	**147,173**
Cash flow from investing activities				
Cash was provided from:				
Proceeds from sale of assets		9	120	233
Other investing activities		-	500	500
		9	620	733
Cash was applied to:				
Purchase of property, plant and equipment		(69,665)	(42,246)	(84,325)
Interest paid – capitalised		(3,442)	(1,363)	(2,833)
Expenditure on investment properties		(2,489)	(11,218)	(15,249)
Other investing activities		-	(200)	(200)
		(75,596)	(55,027)	(102,607)
Net cash applied to investing activities		**(75,587)**	**(54,407)**	**(101,874)**
Cash flow from financing activities				
Cash was provided from:				
Increase in share capital		1,106	476	2,285
Increase in borrowings		1,964,750	948,900	2,103,650
		1,965,856	949,376	2,105,935
Cash was applied to:				
Decrease in borrowings		(1,899,334)	(919,107)	(2,049,858)
Dividends paid		(54,358)	(54,322)	(100,106)
		(1,953,692)	(973,429)	(2,149,964)
Net cash flow applied to financing activities		**12,164**	**(24,053)**	**(44,029)**
Net increase/(decrease) in cash held		(1,491)	72	1,270
Opening cash brought forward		1,594	324	324
Ending cash carried forward		**103**	**396**	**1,594**

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1. The accompanying notes form part of these financial statements.

Notes to the financial statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

1. CORPORATE INFORMATION

Auckland International Airport Limited (the company) is a company established under the Auckland Airport Act 1987 and was incorporated on 20 January 1988 under the Companies Act 1955. The original assets of Auckland International Airport were vested in the company on 1 April 1988 and 13 November 1988 by an Order in Council of the New Zealand Government. The company commenced trading on 1 April 1988. The company was re-registered under the Companies Act 1993 on 6 June 1997. The company is an issuer for the purposes of the Financial Reporting Act 1993.

These interim financial statements were authorised for issue in accordance with a resolution of the directors on 21 February 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting. These financial statements have been prepared on a historical cost basis, except for investment properties, land, buildings, runway, taxiways and aprons, infrastructural assets and derivative financial instruments, which have been measured at fair value.

The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and would otherwise be carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

These interim financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise indicated.

This is the first set of interim financial statements prepared in accordance with NZ IAS 34. NZ IFRS 1: First-Time Adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied. The financial statements of the group had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS) until 30 June 2007. NZ FRS differs in certain respects from New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). When preparing the interim financial statements for the six months ended 31 December 2007, certain accounting policies applied in the prior NZ FRS financial statements have been changed to comply with NZ IFRS. Reconciliations of the impact of adoption of NZ IFRS are provided in note 12.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries (the group).

Subsidiaries are all those entities, including special purpose entities, over which the group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is obtained by the group and cease to be consolidated from the date on which control is transferred out of the group.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from transactions within the group have been eliminated in full.

(c) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of Auckland International Airport Limited is New Zealand dollars ($).

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Exchange rate differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition are recognised in the income statement in the period in which they arise.

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(e) Cash

Cash comprises cash on hand, on-call deposits held with banks and short-term highly liquid investments. For the purposes of the cash flow statement, cash consists of cash as defined above, net of outstanding bank overdrafts.

(f) Statement of cash flows

The following explains the terms used in the statement of cash flows:

Operating activities are the principal revenue-producing activities of the group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents that have been made to generate future cash flows.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

(g) Accounts receivable

Accounts receivable are recognised and carried at the original invoice amount less an allowance for impairment for any uncollectible amounts.

An estimate of impairment for uncollectible amounts is made where there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

(h) Derivative financial instruments and hedging

The group uses derivative financial instruments such as interest rate swaps and forward rate agreements to hedge its risks associated with interest rates. Such derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to the income statement for the year.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

At the inception of a hedge relationship, the group formally designates and documents the hedge relationship to which the group wishes to apply hedge accounting and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows. Hedges are assessed at the inception of the transaction and on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are currently applied to fixed-coupon debt where the fair value of the debt changes through changes in market interest rates. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged. The hedging instrument is also remeasured to fair value. Gains and losses from both are taken to the income statement.

The group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the group revokes the designation. The adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised over the period to maturity.

Cash flow hedges

Cash flow hedges are currently applied to future interest cash flows on variable rate bank loans and commercial paper. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

(i) Investments and other financial assets

Financial assets are currently classified as either financial assets at fair value through profit or loss or loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The group determines the classification of its financial assets after initial recognition and, when appropriate, re-evaluates this designation at each balance date.

Notes to the financial statements continued

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables, including trade receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(j) Investments in associates

The equity method of accounting has been used for entities in which there is significant influence, but not controlling interests, and when that entity is not a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the group determines whether it is necessary to recognise any impairment loss with respect to the group's net investment in its associate.

The group's share of its associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from the associate reduce the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds the carrying amount of an associate, including any unsecured long-term receivables and loans, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(k) Property, plant and equipment

Properties held for use in the supply of goods and services, for administrative purposes or for rental to others for airport operation purposes are classified as property, plant and equipment.

Properties that are being constructed or developed for future use as investment property but do not yet satisfy the definition of investment property are classified as property, plant and equipment.

Property, plant and equipment are initially recognised at cost.

The cost of property, plant and equipment includes all costs directly attributable to bringing the item to working condition for its intended use.

Expenditure on an asset will be recognised if it is probable that future economic benefits will flow to the entity and if the cost of the asset can be measured reliably. This principle applies for both initial and subsequent expenditure.

Vehicles, plant and equipment are carried at cost less accumulated depreciated and impairment losses.

Land, buildings, runway, taxiways and aprons and infrastructural assets are carried at fair value, as determined by an independent registered valuer, less accumulated depreciation and any impairment losses recognised after the date of any revaluation. Land, buildings, runway, taxiways and aprons acquired or constructed after the date of the latest revaluation are carried at cost, which approximates fair value. Revaluations will be carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value at the balance sheet date.

Revaluations

Any revaluation increment, other than investment property revaluations, is recognised in the property, plant and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement.

Any revaluation decrease is recognised in the income statement, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is recognised directly in the asset revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being disposed of or derecognised is transferred to retained earnings.

Depreciation

Depreciation is calculated systematically on a straight-line basis to allocate the cost or revalued amount of an asset, less any residual value, over its estimated useful life.

The estimated useful lives of property, plant and equipment are as follows:

Land (including reclaimed land)	Indefinite
Buildings and services	5–33 years
Infrastructural assets	5–50 years
Runway, taxiways and aprons	16–40 years
Vehicles, plant and equipment	3–10 years

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Disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use.

Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the income statement in the year the asset is derecognised.

(l) Investment properties

Investment properties are properties which are held to earn rental income, for capital appreciation or both. Land held for a currently undetermined future use is classified as investment property.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

If the property is currently classified as investment property and is being redeveloped for further use as investment property, it continues to be classified as investment property.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use. This may be evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when there is a change in use. This may be evidenced by commencement of owner-occupation or commencement of development with a view to sale.

A property transfer from investment property to property, plant and equipment or inventory, has a deemed cost for subsequent accounting at its fair value at the date of change in use. If an item of property, plant and equipment becomes an investment property, the group accounts for such property as an investment property only subsequent to the date of change in use. When the group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

(m) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases in which the group is the lessor and retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are recognised as an asset and recognised as an expense over the lease term on the same basis as is rental income. Rental income is recognised as revenue on a straight-line basis over the lease term.

(n) Impairment of non-financial assets

Property, plant and equipment, and investments in associates are assessed for indicators of impairment at each reporting date. They are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be fully recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets for which an impairment has previously been recorded are tested for possible reversal of the impairment when events or changes in circumstances indicate that the impairment may have reversed.

(o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

(q) Provisions

Provisions are recognised when the group has a present legal or constructive obligation, as a result of a past event, that will probably require an outflow of resources to settle the obligation and the amount can be reliably estimated.

Notes to the financial statements continued

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

Provision for noise mitigation

The group is required to offer acoustic treatment to certain houses and schools when predicted noise levels in the next twelve months are at defined levels. The group has an obligation to fund the acoustic treatment of homes or schools when the offer of acoustic treatment is accepted. On acceptance of offers, the group records a provision for the estimated cost of fulfilling the obligation. The amount of the provision will change depending on the number of offers accepted, a revision in the estimate of the cost of offers, and when the obligation is funded. As directly attributable costs of the second runway, the costs are capitalised to the extent that they are not recoverable from other parties.

(r) Employee benefits

Liabilities for salaries and wages, annual leave, vested long-service leave and sick leave are accrued when earned by employees at rates expected to be incurred when the benefit is utilised.

Provisions for accumulating long-service leave and sick leave entitlements that are expected to be paid in future periods, but have not yet vested, are recognised reflecting the probability that benefits will vest.

The group makes contributions to a defined contribution superannuation scheme. The group has no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay employee benefits.

(s) Share-based payments

The group provides benefits to executives and other employees of the group in the form of share-based payment transactions, whereby executives and employees render services in exchange for shares or rights over shares ("equity-settled transactions") and cash settlements based on the price of the group's shares ("cash-settled transactions").

Equity-settled transactions

The cost of these equity-settled transactions with employees (for awards granted after 7 November 2002 that were not vested at 1 July 2006) is measured by reference to the fair value of the equity instruments at the date at which they are granted. The cost of equity-settled transactions is recognised in the income statement, together with a corresponding increase in the share-based payment reserve in equity, over the period in which the performance and/or service conditions are fulfilled and ends on the date on which the relevant employees become fully entitled to the award.

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the amortised portion of the fair value of the equity instrument adjusted for the estimate of the likelihood of the award vesting.

Cash-settled transactions

The cost of cash-settled transactions with employees is spread over the vesting period to recognise services received. The fair value of cash-settled transactions is determined at each reporting date and the change in fair value is recognised in the income statement. The fair value takes into account the terms and conditions on which the award was granted, and the extent to which employees have rendered services to date.

(t) Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Rendering of services

Airfield income, the passenger services charge and the terminal service charge are recognised as revenue when the airport facilities are used.

Retail concession fees are recognised as revenue on an accrual basis based upon the turnover of the concessionaires and in accordance with the related agreements.

Rental income is recognised as revenue on a straight-line basis over the lease term of the leases.

Revenue from public car parks is recognised on a cash-received basis. Revenue from staff car parks is recognised as revenue when the airport facilities are used.

Interest income

Interest income is recognised as revenue as interest accrues using the effective interest method.

Dividends

Dividends are recognised when the group's right to receive payment is established.

(u) Income tax and other taxes

Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. The relevant tax rates

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are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When the group reacquires its own shares, those treasury shares are deducted from equity and no gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of those shares. Any consideration or transaction costs paid or received are recognised directly in equity.

(w) Earnings per share

Basic earnings per share are calculated as net profit attributable to equity holders of the company, divided by the weighted average number of ordinary shares during the reporting period, adjusted for any bonus elements in ordinary shares issued.

Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account the after-income-tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares during the reporting period assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Notes to the financial statements continued

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

3. RECONCILIATION OF SURPLUS AFTER TAXATION WITH CASH FLOW FROM OPERATING ACTIVITIES	Group 6 months 31 Dec 2007 $000	Group 6 months 31 Dec 2006 $000	Group 12 months 30 June 2007 $000
Reconciliation of net profit after tax to net cash flows from operations			
Profit after taxation	47,590	49,531	230,864
Non-cash items:			
Depreciation	22,361	21,122	43,184
Bad debts and doubtful debts	80	50	-
Deferred taxation expense	2,991	1,461	1,134
Share-based payments	15	47	92
Equity accounted earnings from associates	(552)	(451)	(904)
Investment property fair value increases	-	-	(140,160)
Items not classified as operating activities:			
(Gain)/loss on asset disposals	120	207	798
(Increase)/decrease in property, plant and equipment retentions and payables	662	2,967	(3,022)
Movement in working capital:			
(Increase)/decrease in taxation receivable	3,473	8,680	711
(Increase)/decrease in other current assets	(8,255)	(2,322)	(1,365)
Increase/(decrease) in accounts payable	(7,068)	(2,271)	16,527
(Increase)/decrease in commercial paper discount	524	23	(168)
Increase/(decrease) in other term liabilities	(9)	(512)	(518)
Net cash flow from operating activities	61,932	78,532	147,173

4. DISTRIBUTION TO SHAREHOLDERS	Dividend payment date	Group 6 months 31 Dec 2007 $000	Group 6 months 31 Dec 2006 $000	Group 12 months 30 June 2007 $000
The company paid the following fully imputed dividends during the relevant periods:				
2006 final dividend of 4.45 cents per share	20 Oct 2006	-	54,313	54,313
2007 interim dividend of 3.75 cents per share	30 Mar 2007	-	-	45,774
2007 final dividend of 4.45 cents per share	19 Oct 2007	54,359	-	-
Total dividends paid		54,359	54,313	100,087

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1.

5. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES	Land $000	Buildings and services $000	Infra-structure $000	Runway, taxiways and aprons $000	Vehicles, plant and equipment $000	Total $000
			Group			
At 31 December 2007						
At valuation	1,490,470	413,268	189,619	251,620	-	2,344,977
At cost	1,568	41,818	12,568	9,191	43,614	108,759
Work in progress at cost	-	95,635	10,257	6,950	4,842	117,684
Accumulated depreciation	-	(32,537)	(11,339)	(15,467)	(34,121)	(93,464)
Net carrying amount	1,492,038	518,184	201,105	252,294	14,335	2,477,956
Additions for the 6 months ended 31 December 2007	23	56,567	6,489	5,624	3,633	72,336
At 31 December 2006						
At valuation	1,488,944	412,982	190,079	251,961	-	2,343,966
At cost	-	11,551	4,131	205	40,624	56,511
Work in progress at cost	566	38,025	2,992	5,475	1,878	48,936
Accumulated depreciation	-	(10,249)	(3,613)	(5,229)	(30,451)	(49,542)
Net carrying amount	1,489,510	452,309	193,589	252,412	12,051	2,399,871
Additions for the 6 months ended 31 December 2006	-	34,107	1,694	2,785	2,468	41,054
At 30 June 2007						
At valuation	1,490,470	413,268	189,619	251,620	-	2,344,977
At cost	1,545	21,509	9,072	4,569	41,777	78,472
Work in progress at cost	-	58,497	7,465	6,729	2,965	75,656
Accumulated depreciation	-	(21,179)	(7,428)	(10,271)	(32,225)	(71,103)
Net carrying amount	1,492,015	472,095	198,728	252,647	12,517	2,428,002
Additions for the 12 months ended 30 June 2007	799	68,191	8,467	9,255	4,550	91,262

Property, plant and equipment with a net book value of $0.154 million was disposed of during the six months ended 31 December 2007 (six months ended 31 December 2006: $0.082 million, year ended 30 June 2007: $1.005 million), resulting in a loss on disposal of $0.120 million (six months ended 31 December 2006: $0.207 million, year ended 30 June 2007: $0.798 million).

During the six months ended 31 December 2007, the group acquired and constructed investment property with a cost of $2.501 million (six months ended 31 December 2006: $10.775 million, year ended 30 June 2007: $14.144 million).

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1.

Notes to the financial statements continued

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

6. ISSUED AND PAID-UP CAPITAL	Group 6 months 31 Dec 2007 $000	Group 6 months 31 Dec 2006 $000	Group 12 months 30 June 2007 $000
Issued and paid-up capital at the beginning of the period	169,057	166,791	166,791
Options exercised during the period	1,106	476	2,285
Shares repurchased during the period	-	(16)	(19)
Issued and paid-up capital at the end of the period	**170,163**	**167,251**	**169,057**

	No of Shares	No of Shares	No of Shares
Number of shares outstanding at the beginning of the period	1,221,544,295	1,220,377,835	1,220,377,835
Options exercised during the period	547,200	316,800	1,180,800
Shares repurchased during the period	-	(12,520)	(14,340)
Number of shares outstanding at the end of the period	**1,222,091,495**	**1,220,682,115**	**1,221,544,295**

7. BORROWINGS	Group as at 31 Dec 2007 $000	Group as at 31 Dec 2006 $000	Group as at 30 June 2007 $000
Current			
Money market	24,400	19,600	23,600
Standby facility	35,000	-	-
Commercial paper	158,599	201,508	193,075
Bridge facility	175,000	75,000	-
Floating rate notes	-	59,000	59,000
Bonds	74,041	41,235	41,367
Total short-term borrowings	**467,040**	**396,343**	**317,042**
Non-current			
Bridge facility	-	-	75,000
Bank facility	210,000	115,000	145,000
Floating rate notes	13,100	13,100	13,100
Bonds	280,687	357,241	354,390
Total term borrowings	**503,787**	**485,341**	**587,490**
Total			
Money market	24,400	19,600	23,600
Standby facility	35,000	-	-
Commercial paper	158,599	201,508	193,075
Bridge facility	175,000	75,000	75,000
Bank facility	210,000	115,000	145,000
Floating rate notes	13,100	72,100	72,100
Bonds	354,728	398,476	395,757
Total borrowings	**970,827**	**881,684**	**904,532**

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1.

The group utilises a mixture of term bonds, bank facilities and commercial paper to provide its ongoing debt requirements. It routinely rolls over debt facilities at maturity. The group is confident that short-term borrowings will be refinanced at maturity.

In October 2006, the company established a bridge facility with Bank of New Zealand for up to $175.000 million to fund the bond maturities on 15 November 2006 and 16 July 2007. This facility expires on 15 November 2008.

In December 2005, the company established a $275.000 million, five-year bank facility with Commonwealth Bank of Australia. The facility contains a term debt facility of $100.000 million and a revolving cash advances facility of $175.000 million. In February 2007, the company extended the expiration of this bank facility to 31 January 2012.

Borrowings under the bank facility, bridge facility and standby facilities are supported by a negative pledge deed. Borrowings under the bond programme are supported by a negative pledge deed or a master trust deed.

8. COMMITMENTS

(a) Property, plant and equipment commitments

The group had contractual obligations to purchase property, plant and equipment for $62.084 million at 31 December 2007 (31 December 2006: $48.315 million, 30 June 2007: $77.357 million) principally relating to terminal expansion and northern airport development.

(b) Investment property commitments

The group had contractual obligations to purchase or develop investment property for $0.060 million at 31 December 2007 (31 December 2006: $2.340 million, 30 June 2007: $2.303 million).

9. CONTINGENT LIABILITIES

Noise insulation

In December 2001, the Environment Court ratified an agreement that had been reached between Manukau City Council, the company and other interested parties on the location and future operation of a second runway to the north and parallel to the existing runway. The first stage is expected to be operational during the year ending 30 June 2011 and will provide a runway of 1,200 metres. This can be increased to 2,150 metres in the future.

As provided for in the Manukau District Plan, the company will, over time, offer certain acoustic treatment packages to existing homes and schools within defined areas. Approvals for the second runway include a number of obligations on the company to mitigate the impacts of aircraft noise on the local community. An annual contribution of $0.279 million (relating to the 2008 financial year and inflation adjusted for future years) is made to a noise mitigation trust fund administered by the group and the community for the benefit of the local communities.

Noise levels are monitored continually and, as the noise impact area increases, further offers will need to be made. The obligation does not extend to new houses. Overall, it is estimated that approximately 4,000 homes will eventually be offered assistance.

As it is not possible to accurately predict the rate of increase in aircraft noise levels over time, nor the rate of acceptance of offers of treatment to homeowners, the group cannot accurately predict the overall cost or timing of acoustic treatment. It is estimated that, overall, further costs would not exceed $10.000 million. Pursuant to the aeronautical pricing consultation process between the company and its substantial customers completed on 2 July 2007, future noise costs will be shared between the company and the airlines on a fair and equitable basis. Aeronautical pricing is reviewed at least every five years.

Claim under Public Works Act

The group has received a claim from the Craigie Trust regarding certain land acquired for aerodrome purposes during the 1970s. The land in question is 36.4 hectares out of the group's total land holding of 1,511 hectares. The Craigie Trust, as original owner of the land, asserts that the land ceased (between 1985 and 1989) to be required by the group for the public work for which it was acquired and should be offered back to it under the Public Works Act 1981. The claim is being vigorously defended by the group. The directors are of the opinion that there are strong arguments to defend the claim.

Air New Zealand judicial review

In July 2007, Air New Zealand issued judicial review proceedings against the group in relation to the setting of new airport charges including the replacement of the airport development charge with a passenger services charge payable by the airlines. The group refutes Air New Zealand's claim and is vigorously defending the proceedings. The directors believe that the aeronautical pricing consultation process conducted by the group and its outcomes will be upheld in the proceedings.

There were no other contingent liabilities outstanding at 31 December 2007 (31 December 2006 and 30 June 2007: Nil).

10. SEGMENTAL REPORTING

The group is located in one geographic segment in Auckland, New Zealand, and operates in the airport industry. The group earns revenue from aeronautical activities and other charges and rents associated with operating an airport.

11. SUBSEQUENT EVENTS

On 21 February 2008, the directors approved the payment of an interim dividend of 5.75 cents per share amounting to $70.270 million to be paid on 12 March 2008.

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1.

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

12. IMPACT OF ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Explanation of transition to NZ IFRS

As stated in note 2, these are the group's first interim financial statements prepared in accordance with NZ IAS 34: *Interim Financial Reporting*.

In preparing the comparative figures, the group has adjusted the amounts reported previously in financial statements prepared in accordance with NZ FRS.

As permitted under NZ IFRS 1: *First-Time Adoption of New Zealand Equivalents to International Financial Reporting Standards*, the following elections and exemptions, as applicable to the group, have been applied:

(i) Business combinations

The classification and accounting treatment of business combinations that occurred prior to 1 July 2006 has not been reconsidered in preparing the group's opening NZ IFRS balance sheet as at 1 July 2006.

(ii) Share-based payment transactions

The group has decided not to apply the option to apply NZ IFRS 2: *Share-Based Payment* to equity instruments granted on or before 7 November 2002 or to those granted after 7 November 2002 that vested before the transition date of 1 July 2006.

(iii) Assets and liabilities of associates

The group has adopted NZ IFRS later than have its associates and will measure the associates' assets and liabilities at the carrying amounts in the financial statements of the associates.

Impacts of the adoption of NZ IFRS

A reconciliation of the group's equity and the profit from the previous NZ FRS financial statements and that reported under NZ IFRS are set out in the following tables and the notes that accompany the tables.

There are no material differences between the cash flow statement presented under NZ IFRS and that presented under previous NZ FRS.

Effect of NZ IFRS on the group income statement

Six months ended 31 December 2006	Notes	NZ FRS $000	Adjustments $000	NZ IFRS $000
Total operating revenue		159,679	-	159,679
Total operating expenses	(f) (g)	33,458	92	33,550
Operating EBITDA and Total EBITDA		126,221	(92)	126,129
Depreciation	(d)	21,088	34	21,122
EBIT		105,133	(126)	105,007
Interest expense and other finance costs	(e)	30,711	(8)	30,703
Profit before taxation		74,422	(118)	74,304
Taxation expense	(a) (h)	23,309	1,464	24,773
Profit after taxation		51,113	(1,582)	49,531

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1.

Effect of NZ IFRS on the group income statement

12 months ended 30 June 2007	Notes	NZ FRS $000	Adjustments $000	NZ IFRS $000
Total operating revenue		321,946	-	321,946
Total operating expenses	(f) (g)	79,147	83	79,230
Operating EBITDA		242,799	(83)	242,716
Investment property fair value increases	(c)	-	140,160	140,160
Total EBITDA		242,799	140,077	382,876
Depreciation	(d)	43,117	67	43,184
EBIT		199,682	140,010	339,692
Interest expense and other finance costs	(e)	62,747	(8)	62,739
Profit before taxation		136,935	140,018	276,953
Taxation expense	(a) (h)	44,954	1,135	46,089
Profit after taxation		91,981	138,883	230,864

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1.

Notes to the financial statements continued

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

Effect of NZ IFRS on the group balance sheet

As at 31 December 2006	Notes	NZ FRS $000	Adjustments $000	NZ IFRS $000
Non-current assets				
Property, plant and equipment	(d)	2,552,656	(152,785)	2,399,871
Investment properties	(c) (d)	204,720	162,345	367,065
Investment in associate		3,439	-	3,439
Derivative financial instruments	(e)	-	4,890	4,890
Other non-current assets		775	-	775
		2,761,590	14,450	2,776,040
Current assets				
Bank		396	-	396
Inventories		133	-	133
Prepayments	(e)	4,481	(3,492)	989
Accounts receivable	(h)	13,286	(43)	13,243
Taxation receivable		2,211	-	2,211
Derivative financial instruments	(e)	-	1,027	1,027
		20,507	(2,508)	17,999
Total assets		2,782,097	11,942	2,794,039
Shareholders' equity				
Issued and paid-up capital	(h)	167,386	(135)	167,251
Cancelled share reserve		(161,304)	-	(161,304)
Retained earnings	(a)-(h)	(28,596)	155,939	127,343
Property, plant and equipment revaluation reserve	(a) (b) (d)	1,808,241	(188,422)	1,619,819
Investment property revaluation reserve	(c)	66,642	(66,642)	-
Share-based payment reserve	(f)	-	819	819
Cash flow hedge reserve	(e)	-	4,885	4,885
		1,852,369	(93,556)	1,758,813
Non-current liabilities				
Term borrowings	(e)	490,425	(5,084)	485,341
Derivative financial instruments	(e)	-	3,150	3,150
Deferred tax liability	(a) (h)	-	107,183	107,183
Other term liabilities	(e)	446	-	446
		490,871	105,249	596,120
Current liabilities				
Accounts payable and accruals	(e) (g) (h)	34,822	3,890	38,712
Short-term borrowings	(e)	399,984	(3,641)	396,343
Derivative financial instruments	(e)	-	-	-
Provisions		4,051	-	4,051
		438,857	249	439,106
Total equity and liabilities		2,782,097	11,942	2,794,039

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1.

Effect of NZ IFRS on the group balance sheet

As at 30 June 2007	Notes	NZ FRS $000	Adjustments $000	NZ IFRS $000
Non-current assets				
Property, plant and equipment	(d)	2,543,682	(115,680)	2,428,002
Investment properties	(c) (d)	329,740	180,160	509,900
Investment in associate		3,892	-	3,892
Derivative financial instruments	(e)	-	12,507	12,507
Other non-current assets		775	-	775
		2,878,089	76,987	2,955,076
Current assets				
Bank		1,594	-	1,594
Inventories		134	-	134
Prepayments	(e)	4,815	(1,925)	2,890
Accounts receivable	(h)	12,129	11	12,140
Taxation receivable		10,180	-	10,180
Derivative financial instruments	(e)	-	669	669
		28,852	(1,245)	27,607
Total assets		2,906,941	75,742	2,982,683
Shareholders' equity				
Issued and paid-up capital	(h)	169,195	(138)	169,057
Cancelled share reserve		(161,304)	-	(161,304)
Retained earnings	(a)-(h)	(34,047)	296,372	262,325
Property, plant and equipment revaluation reserve	(a) (b) (d)	1,779,705	(147,814)	1,631,891
Investment property revaluation reserve	(c)	180,922	(180,922)	-
Share-based payment reserve	(f)	-	864	864
Cash flow hedge reserve	(e)	-	12,132	12,132
		1,934,471	(19,506)	1,914,965
Non-current liabilities				
Term borrowings	(e)	595,425	(7,935)	587,490
Derivative financial instruments	(e)	-	6,151	6,151
Deferred tax liability	(a) (h)	-	95,361	95,361
Other term liabilities	(e)	440	-	440
		595,865	93,577	689,442
Current liabilities				
Accounts payable and accruals	(e) (g) (h)	54,559	3,613	58,172
Short-term borrowings	(e)	318,984	(1,942)	317,042
Provisions		3,062	-	3,062
		376,605	1,671	378,276
Total equity and liabilities		2,906,941	75,742	2,982,683

These financial statements have not been audited. They have been the subject of a review by the auditors pursuant to NZICA Review Engagement Standard RS-1.

Notes to the financial statements continued

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

Effect of NZ IFRS on the group balance sheet

As at 1 July 2006	Notes	NZ FRS $000	Adjustments $000	NZ IFRS $000
Non-current assets				
Property, plant and equipment	(d)	2,533,430	(152,751)	2,380,679
Investment properties	(c) (d)	193,502	162,345	355,847
Investment in associate		2,988	-	2,988
Derivative financial instruments	(e)	-	2,271	2,271
Other non-current assets		1,075	-	1,075
		2,730,995	11,865	2,742,860
Current assets				
Bank		324	-	324
Inventories		100	-	100
Prepayments	(e)	3,616	(1,757)	1,859
Accounts receivable	(h)	11,935	13	11,948
Taxation receivable		10,891	-	10,891
Derivative financial instruments	(e)	-	854	854
		26,866	(890)	25,976
Total assets		2,757,861	10,975	2,768,836
Shareholders' equity				
Issued and paid-up capital	(h)	166,910	(119)	166,791
Cancelled share reserve		(161,304)	-	(161,304)
Retained earnings	(a)-(h)	(25,387)	157,512	132,125
Property, plant and equipment revaluation reserve	(a) (b) (d)	1,808,241	(188,422)	1,619,819
Investment property revaluation reserve	(c)	66,642	(66,642)	-
Share-based payment reserve	(f)	-	772	772
Cash flow hedge reserve	(e)	-	2,005	2,005
		1,855,102	(94,894)	1,760,208
Non-current liabilities				
Term borrowings	(e)	600,809	(2,869)	597,940
Derivative financial instruments	(e)	-	890	890
Deferred tax liability	(a) (h)	-	105,722	105,722
Other term liabilities	(e)	958	-	958
		601,767	103,743	705,510
Current liabilities				
Accounts payable and accruals	(e) (g) (h)	38,290	3,773	42,063
Short-term borrowings	(e)	259,808	(1,757)	258,051
Derivative financial instruments	(e)	-	110	110
Provisions		2,894	-	2,894
		300,992	2,126	303,118
Total equity and liabilities		2,757,861	10,975	2,768,836

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(a) Deferred taxation

Under NZ IFRS, the deferred tax liability is calculated using a "balance sheet" approach, which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of balance sheet items. The previous NZ FRS approach recognised the differences between the accounting surplus and taxable income.

Furthermore, under previous NZ FRS, the group accounted for deferred taxation using the partial basis which meant that a deferred tax liability was recognised only to the extent that it was expected to crystallise in the foreseeable future. The partial basis of accounting for deferred taxation is not allowed under NZ IFRS. The most significant impact on transition to NZ IFRS was the recognition of a deferred tax liability in respect of the revaluation of property, plant and equipment and investment property.

The effects of this change on the group were:

- On transition to NZ IFRS as at 1 July 2006, a deferred tax liability was recognised in the balance sheet of $105.727 million, the property, plant and equipment revaluation reserve decreased by $126.446 million and opening retained earnings increased by $20.719 million.
- As at 31 December 2006, a deferred tax liability was recognised in the balance sheet of $107.188 million, the property, plant and equipment revaluation reserve decreased by $126.446 million and retained earnings increased by $19.258 million. For the six months ended 31 December 2006, a deferred tax expense of $1.461 million was recorded.
- As at 30 June 2007, a deferred tax liability was recognised in the balance sheet of $95.366 million, the property, plant and equipment revaluation reserve decreased by $114.950 million and retained earnings increased by $19.585 million. For the year ended 30 June 2007, a deferred tax expense of $1.134 million was recorded.

(b) Property, plant and equipment

The group revalues land, buildings, runways, taxiways, and aprons and infrastructure assets on a cyclical basis at a minimum of once every five years. Revaluation increases and decreases under NZ FRS were recognised on a class-by-class basis. Under NZ IFRS, offsetting of revaluation increases and decreases on individual assets within a class of property, plant and equipment is not permitted. Changes arising from this requirement will result in increased volatility of earnings because revaluation decreases below historical cost for individual assets are required to be recognised in the income statement.

The effects of this change on the group were:

- On transition to NZ IFRS, as at 1 July 2006 and as at 31 December 2006, the property, plant and equipment revaluation reserve increased and retained earnings decreased by $47.973 million.
- As at 30 June 2007, the property, plant and equipment revaluation reserve increased and retained earnings decreased by $47.158 million.

(c) Investment properties

Investment properties under previous NZ FRS were valued annually at market value less the estimated costs of disposal. Under NZ IFRS, investment properties are measured at fair value.

The difference between fair value and net market value is that disposal costs are not deducted to arrive at fair value. The result is an increase in the value recorded for investment properties. The effects of this change on the group were:

- On transition to NZ IFRS as at 1 July 2006 and as at 31 December 2006, investment property and opening retained earnings increased by $9.594 million.
- As at 30 June 2007, investment property and retained earnings increased by $3.657 million. For the year ended 30 June 2007, profit before taxation decreased by $5.937 million.

Under previous NZ FRS, changes in the valuation of investment properties were recorded in equity as an investment property revaluation reserve. Under NZ IFRS, both upward and downward revaluations of investment properties are recognised directly in the income statement which flows through to equity as retained earnings.

The effects of this change on the group were:

- On transition to NZ IFRS as at 1 July 2006 and as at 31 December 2006, the investment property revaluation reserve of $66.642 million was transferred to opening retained earnings.
- As at 30 June 2007, the investment property revaluation reserve of $180.922 million was transferred to retained earnings. During the year ended 30 June 2007, investment property revaluation income of $146.097 million was recorded in the income statement. This includes revaluation increases for the year ended 30 June 2007 in respect of assets transferred from property, plant and equipment to investment properties, as discussed in (d) below.

Changes arising from this requirement will result in greater earnings volatility as the revaluations will be recognised in the income statement.

Notes to the financial statements continued

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

(d) Reclassification of investment property and property, plant and equipment

The group classified undeveloped property as property, plant and equipment under previous NZ FRS. Under NZ IFRS, undeveloped properties held for unidentified final use are classified as investment properties. Properties held for determined future use as investment properties are classified as investment properties. This resulted in a movement in a net reclassification from property, plant and equipment to investment property, and revaluations are accounted for accordingly.

The effects of this change on the group were:

- On transition to NZ IFRS as at 1 July 2006, a net of $152.751 million was transferred from property, plant and equipment to investment properties. $109.949 million was transferred from the property, plant and equipment revaluation reserve to retained earnings in respect of these assets.
- As at 31 December 2006, a net of $152.751 million was transferred from property, plant and equipment to investment properties. $109.949 million was transferred from the property, plant and equipment revaluation reserve to retained earnings in respect of these assets. For the six months ended 31 December 2006, depreciation expense increased and property, plant and equipment decreased by $0.034 million.
- As at 30 June 2007, a net of $115.680 million was reclassified from property, plant and equipment to investment properties. $80.022 million was transferred from the property, plant and equipment revaluation reserve to retained earnings in respect of these assets. For the year ended 30 June 2007, depreciation expense increased by $0.067 million, and the assets reclassified from property, plant and equipment to investment properties were revalued upwards by $60.823 million.

(e) Hedge accounting

The group uses derivatives to manage its interest rate risks.

Under NZ IFRS, all derivative financial instruments are recognised at fair value in the balance sheet. Changes in the fair value of the derivatives are recognised in the income statement unless strict hedge accounting criteria are met. If the criteria are met for cash flow hedge accounting, the unrealised gain or loss on the hedging derivative is deferred within equity and released to the income statement at the same time as the transaction it is hedging. If the criteria are met for fair value hedge accounting, the hedged item is also recognised at fair value and both the change in the fair value of the derivative and of the hedged item are recognised in the income statement.

The effects of this change on the group were:

- On transition to NZ IFRS as at 1 July 2006, assets increased by net $1.368 million (long-term derivative assets increased by $2.271 million, short-term derivative assets increased by $0.854 million and prepayments decreased by $1.757 million), liabilities decreased by net $0.629 million (long-term derivative liabilities increased by $0.890 million, short-term derivative liabilities increased by $0.110 million, borrowings decreased by $4.626 million, accounts payable and accruals increased by $2.997 million), the cash flow hedge reserve increased by $2.005 million and retained earnings decreased by $0.008 million.
- As at 31 December 2006, assets increased by net $2.425 million (long-term derivative assets increased by $4.890 million, short-term derivative assets increased by $1.027 million and prepayments decreased by $3.492 million), liabilities decreased by net $2.460 million (long-term derivative liabilities increased by $3.150 million, borrowings decreased by $8.725 million, accounts payable and accruals increased by $3.115 million), and the cash flow hedge reserve increased by $4.885 million. For the six months ended 31 December 2006, surplus after taxation increased by $0.008 million.
- As at 30 June 2007, assets increased by net $11.251 million (long-term derivative assets increased by $12.507 million, short-term derivative assets increased by $0.669 million and prepayments decreased by $1.925 million), liabilities decreased by net $0.882 million (long-term derivative liabilities increased by $6.151 million, borrowings decreased by $9.877 million, accounts payable and accruals increased by $2.844 million), and the cash flow hedge reserve increased by $12.132 million. For the year ended 30 June 2007, surplus after taxation increased by $0.008 million.

(f) Share-based remuneration

Under NZ IFRS, the effect of all share-based payment transactions must be reflected in the income statement and the balance sheet.

The group has issued share options and phantom shares and options to executives as part of executive remuneration. An employee share purchase plan, a DF7 plan under the Income Tax Act 1994, is also in place to assist employees to become equity holders in the group. The shares are usually offered to employees at a discount to market value at the time of issue. Under previous NZ FRS, the group did not recognise an expense in respect of the share option scheme or the employee share purchase plan.

The employee share purchase plan and executive share option plan are equity-settled. For the employee share purchase plan, NZ IFRS requires that, at grant date, the discount to market value at the time of issue of the shares

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is measured and expensed over the period the employee provides the related services. For the executive share option plan NZ IFRS requires that, at grant date, the fair value of the options is also measured and expensed over the period the employee provides the related services. In subsequent periods, adjustments are made only to reflect changes in the number of shares or options expected to vest or that have vested. The group has taken up an allowed exemption for share options, on transition to NZ IFRS, to apply the change only to options granted subsequent to 7 November 2002.

The effects of this change on the group were:

- On transition to NZ IFRS as at 1 July 2006, opening retained earnings decreased by $0.772 million and the share-based payment reserve within shareholders' equity increased by the equivalent amount.
- As at 31 December 2006, retained earnings decreased by $0.819 million and the share-based payment reserve within shareholders' equity increased by the equivalent amount. For the six months ended 31 December 2006, profit before tax decreased by $0.047 million.
- As at 30 June 2007, retained earnings decreased by $0.864 million and the share-based payment reserve within shareholders' equity increased by the equivalent amount. For the year ended 30 June 2007, profit before tax decreased by $0.092 million.

The phantom share and option plans are considered cash-settled. For cash-settled transactions, the fair value of the liability is measured at each reporting date and at the date of settlement, with any changes in fair value recognised in the income statement. This approach is consistent with the previous accounting treatment for the phantom share and option plans under NZ FRS.

(g) Employee benefits

Under NZ FRS, the group recognised a liability when long-service leave was fully vested. Under NZ IFRS, long-service leave is accrued as it is earned. The liability is measured using an actuarial technique to reflect the probability that payment will be required.

On adoption of NZ IFRS, long-service leave not yet vested and a portion of unused sick leave entitlements earned and expected to be paid in the future were recognised as liabilities and as charges against earnings.

The effects of this change on the group were:

- On transition to NZ IFRS as at 1 July 2006, liabilities increased by $0.776 million and opening retained earnings decreased by the equivalent amount.
- As at 31 December 2006, liabilities increased by $0.821 million and retained earnings decreased by the equivalent amount. For the six months ended 31 December 2006, profit before tax decreased by $0.045 million.
- As at 30 June 2007, liabilities increased by $0.769 million and retained earnings decreased by the equivalent amount. For the year ended 30 June 2007, profit before tax increased by $0.009 million.

(h) Consolidation of employee share purchase plan

Under NZ FRS, the employee share purchase plan trust was not consolidated into the group financial statements. Under NZ IFRS, the employee share purchase plan trust is considered to be controlled by the group and is consolidated by the group.

The effects of this change on the group were:

- On transition to NZ IFRS as at 1 July 2006, share capital decreased by $0.119 million, retained earnings increased by $0.136 million, the deferred tax liability decreased by $0.005 million and total assets increased by $0.013 million.
- As at 31 December 2006, share capital decreased by $0.135 million, retained earnings increased by $0.143 million, the deferred tax liability decreased by $0.005 million and net total assets increased by $0.003 million. For the six months ended 31 December 2006, tax expense increased by $0.003 million.
- As at 30 June 2007, share capital decreased by $0.138 million, retained earnings increased by $0.154 million, the deferred tax liability decreased by $0.005 million and total assets increased by $0.011 million. For the year ended 30 June 2007, tax expense increased by $0.001 million.

Review report

Deloitte.

REVIEW REPORT TO THE SHAREHOLDERS OF AUCKLAND INTERNATIONAL AIRPORT LIMITED

We have reviewed the consolidated interim financial statements on pages 14 to 35. The consolidated interim financial statements provide information about the past financial performance of Auckland International Airport Limited its subsidiaries and associate (the group) and its financial position as at 31 December 2007. This information is stated in accordance with the accounting policies set out on pages 18 to 23.

Board of Directors' responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of consolidated interim financial statements which give a true and fair view of the financial position of the group as at 31 December 2007 and the results of operations and cash flows for the six-month period ended on that date.

Independent accountants' responsibilities

We are responsible for reviewing the consolidated interim financial statements presented by the Board of Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the consolidated interim financial statements do not present fairly the matters to which they relate.

Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than does an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have reviewed the consolidated interim financial statements of the group for the six-month period ended 31 December 2007 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. These standards require that we plan and perform the review to obtain moderate assurance as to whether the consolidated interim financial statements are free of material misstatement.

Other than in our capacity as auditors under the Companies Act 1993 and the provision of taxation and accounting advice, we have no relationship with, or interests, in the group.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the consolidated interim financial statements on pages 14 to 35 do not present fairly the financial position of the group as at 31 December 2007 and the results of its operations and cash flows for the six-month period ended on that date in accordance with NZ IAS 34: Interim Financial Reporting, IAS 34: Interim Financial Reporting and NZ IFRS 1: First-Time Adoption of New Zealand Equivalents to International Financial Reporting Standards.

Our review was completed on 21 February 2008 and our review opinion is expressed as at that date.

Deloitte

Chartered Accountants
AUCKLAND, NEW ZEALAND

Corporate directory

DIRECTORS

Anthony Frankham, chairman
Keith Turner, deputy chairman
John Brabazon
Richard Didsbury
Lloyd Morrison
Joan Withers

SENIOR MANAGEMENT

Don Huse, chief executive officer
Nick Forbes, general manager retail
Tony Gollin, general manager aeronautical
Chris Gudgeon, general manager property
Judy Nicholl, general manager people and performance
Lucy Powell, head of communications
Steve Reindler, general manager engineering
Robert Sinclair, chief financial officer
Charles Spillane, general counsel and corporate secretary
Tony Wickstead, chief information officer

REGISTERED OFFICE NEW ZEALAND

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New Zealand

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MAILING ADDRESS

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CORPORATE SECRETARY

Charles Spillane

SOLICITORS

Russell McVeagh

AUDITORS

Deloitte

PRINCIPAL BANKERS

Bank of New Zealand
Commonwealth Bank of Australia